



Royal Specialty Underwriting, Inc.

BBSF
12-11-8
Claims Department

February 12, 1998

certified mail
return receipt requested

Mr. Michael David Lichtenstein, Esq.
Lowenstein, Sandler, Kohl, Fisher & Boylan
65 Livingston Avenue
Roseland, New Jersey 07068

RE: Insured: Marmon Holdings, Inc.
Royal Policy No.: RED 102146
RED 102707
Policy Period: 10/1/83 to 10/1/84
10/1/84 to 10/1/85
Royal Claim No.: 1260001976
1260001975
Subject: Hazardous Waste Litigation
Sites/Locations: Coeur d'Alene Basin, Northern Idaho



Dear Mr. Lichtenstein:

This letter acknowledges receipt of information submitted to Royal Indemnity Company regarding Group R Co., Inc. and Marmon Holdings, Inc.'s potential involvement in the above captioned hazardous waste litigation. Due to the nature of this claim, there are several potential coverage questions that we would like to address at this time.

We first wish to advise that the above captioned policy is an excess policy. Royal policy ED 102146 has policy limits of \$10 million part of \$200 million excess of \$190 million excess of primary. Royal policy ED 102707 has policy limits of \$10 million part of \$200 million excess of \$98 million excess of primary/SIR. We have not received any information to date that would indicate or even suggest the layers of insurance below ours have been exhausted or are approaching 50% impairment. We assume the primary or underlying carriers are undertaking the defense of this matter. However, we must advise that Royal Indemnity Company will not provide for any of the defense or indemnification of any matter until such time as all applicable underlying insurance coverage is exhausted.

The above captioned policy was written on an occurrence basis and predicated its coverage on the condition the occurrence produced property damage and/or bodily injury during the policy period and that the property damage and/or bodily injury neither be expected nor intended from the standpoint of the insured. With this in mind, we refer you to the definition section of your underlying policy.

Should it be legally determined the alleged damages fall outside of the aforementioned definitions, no indemnification would be provided by this policy. Further, should it be legally determined the property damage and/or bodily injury falls outside of the policy period, no indemnification would be provided.

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Additionally, we believe there are other potential coverage questions that could, alone or in conjunction with other policy provisions, preclude coverage from matters of this nature. Some of these are as follows:


1. Whether the notice provision of the policy has been complied with;
2. Whether the policy provides coverage with respect to equitable or injunctive remedies or statutory fines should any be levied against any named insured;
3. Whether the property owned or in the care, custody and control of the insured exclusion applies;
4. Whether or not any of the activities were the result of intentional acts;
5. Whether the policy excludes coverage under the Pollution Exclusion as contained in the Royal policy or the underlying policy to which we form follow.

Since the law regarding the trigger of coverage for damages of this nature is presently unsettled, we suggest you notify all other insurance carriers for the time frames involved for each lawsuit and/or location as their participation may be warranted.

By virtue of all the above, Royal Indemnity Company reserves its right to deny coverage in all respects pursuant to the terms, conditions and provisions of the captioned policy and any other policy which may have been written by our Company. This includes the right to bring an action for declaratory relief on the issue of coverage and to seek reimbursement of costs if successful. Any action taken by Royal Indemnity Company, its agents or anyone acting on its behalf is not to be construed as a waiver of any said rights.

Pursuant to this reservation of rights, we request that we be kept advised of any developments surrounding this matter which may affect our level of coverage. Thank you for your cooperation and consideration.

Sincerely,



Nora W. Martin, AIC, ARM
Sr. Technical Specialist
Excess & Surplus Claims

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